

HIGHER EDUCATION

Higher Education includes the University of California (UC), the California State University (CSU), the California Community Colleges, the California Student Aid Commission (CSAC) and several other entities.

The May Revision builds upon the long-term vision for higher education in the Governor's Budget. This vision is rooted in the belief that higher education should be affordable and student success can be improved. The significant components include the following:

- **Affordability**—The objective is to curtail tuition and fee increases and to lessen the pressure for students to take out burdensome loans.
- **Student Success**—The state will make annual General Fund augmentations contingent upon each institution achieving the Administration's priorities, including improvements in specific accountability metrics.
- **Stable Funding Source**—The state will increase its General Fund contribution to each institution's prior-year base, contingent upon the passage of the Governor's tax initiative.
- **Fiscal Incentives**—The shift of retirement costs and bond debt service appropriations into each institution's budget will encourage the institutions to factor these costs into their overall fiscal outlook and decision-making process.

The May Revision includes total funding of \$23 billion (\$11.6 billion General Fund and \$11.4 billion other funds) for all programs included in these agencies.

UNIVERSITY OF CALIFORNIA

Drawing from the top 12.5 percent of the state's high school graduates, UC educates approximately 237,800 undergraduate and graduate students at its ten campuses and is the primary institution authorized to independently award doctoral degrees and professional degrees in law, medicine, business, dentistry, veterinary medicine, and other programs. UC manages one U.S. Department of Energy national laboratory and partners with private industry to manage two others. UC also and operates five medical centers that support the clinical teaching programs of the UC's medical and health sciences schools that handle more than 3.8 million patient visits each year.

Proposal to Balance the Budget:

- *Partial Delay of Operating Budget Needs*—A decrease of \$38 million to the \$90 million augmentation included in the Governor's Budget for base operating costs that could be used to address costs related to UC's retirement program contributions or other needs. This revised proposal will provide \$52 million in 2012-13, which matches the Governor's Budget augmentation for CSU retirement contributions, and delays the remaining \$38 million augmentation until 2013-14.

CALIFORNIA STATE UNIVERSITY

Drawing students from the top one-third of the state's high school graduates, as well as transfer students who have successfully completed specified college work, CSU provides undergraduate degrees in a broad range of disciplines and graduate instruction through master's degrees and independently awards doctoral degrees in education, nursing practice, and physical therapy, or jointly with UC or private institutions in other fields of study. The CSU has 23 campuses and approximately 426,400 students. The CSU grants more than one-half of the state's bachelor's degrees and one-third of the state's master's degrees. It also produces over 50 percent of California's teachers.

Significant Adjustments:

- *Continue to Provide Adjustments for Retirement Costs*—The Governor's Budget proposed that CSU no longer receive annual budget adjustments for CSU's

retirement costs beginning in 2013-14. However, recognizing that certain costs are determined by California Public Employees' Retirement System over which CSU has no control, the May Revision modifies that proposal so that CSU will receive annual budget adjustments associated with the unfunded liability portion of its retirement costs, as outlined by CalPERS. The May Revision will also adjust CSU's base budget to reflect incremental changes for 2012-13 employer contribution rates.

- *Provide CSU the Authority to Negotiate and Set Employee Health Benefits with Represented and Non-Represented Employees*—The Administration proposes trailer bill language that will provide CSU the same statutory authority to negotiate or set employee health care benefits that is provided to the Department of Personnel Administration (DPA) in setting such policies for other state employees. Currently, CSU pays 100 percent of the health care premiums for its employees and 90 percent for employees' family members. For most state employees, the state pays either 80 or 85 percent of employees' health care premiums and 80 percent for family members. State law specifies contribution rates for state and CSU employer payments for employee health care premiums. In 1991, state law provided DPA the ability to negotiate employer shares for health benefits for state employees, but a similar statutory change was not provided to CSU. This proposal will provide CSU a tool to better manage and negotiate the entirety of its personnel costs.

CALIFORNIA COMMUNITY COLLEGES

The California Community Colleges are publicly supported local educational agencies that provide educational, vocational, and transfer programs to approximately 2.6 million students. The Community College system is the largest system of higher education in the world, with 72 districts, 112 campuses, and 71 educational centers. By providing education, training, and services, the Community Colleges contribute to continuous workforce improvement. The Community Colleges also provide remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

Significant Adjustments:

- *Mandates Block Grant*—The Governor's Budget proposed to eliminate nearly half of the existing K-14 mandates and provide \$200 million to fund a mandates block grant incentive program to reimburse K-12 schools and community colleges for all remaining mandated activities. The May Revision proposes the following changes to the block grant program:

- *Distribute Funding Equally on a Per-Student Basis*—The May Revision proposes to distribute block grant funding to school districts, county offices of education, charter schools, and community colleges equally based on average daily attendance for K-12 schools and funded full-time equivalent students for community colleges. Of the \$200 million proposed for the block grant, \$166.6 million would be available for K-12 schools and \$33.4 million would be available for community colleges, providing a uniform funding rate of approximately \$28 per student.
- *Eliminate the Existing Mandates Claiming Process*—The proposal eliminates the claiming process as an option for K-12 schools and community colleges to seek reimbursement for the mandates funded in the block grant. Eliminating this option will ensure that K-12 schools and community colleges are reimbursed at the same rate for performing the same mandated activities.
- *Add Mandates to Block Grant and Suspension List*—The Commission on State Mandates recently determined that significant portions of the Minimum Conditions for State Aid, Community College Construction, and Discrimination Complaint Procedures test claims contained reimbursable state-mandated activities. The May Revision proposes to add the Minimum Conditions for State Aid and Community College Construction mandates to the list of eligible mandates to be funded from the block grant while the state reviews the policy and fiscal implications. Additionally, the May Revision proposes to suspend the Discrimination Complaint Procedures mandate because nearly all of these mandated activities are based on regulations issued by the Board of Governors of the California Community Colleges. These actions would save millions of dollars in Proposition 98 General Fund.
- *Apportionment Adjustments*—An increase of \$30.8 million in 2011-12 and a net decrease of \$238.9 million Proposition 98 General Fund in 2012-13 to apportionment funding. Specific adjustments include:
 - An increase of \$30.8 million in 2011-12 to reflect a decrease in estimated local property tax revenues.
 - A decrease of \$191.2 million in 2012-13 to reflect an increase in estimated local property tax revenues largely due to the recovery of cash assets held by redevelopment agencies.

- A decrease of \$125.4 million in 2012-13 to reflect an increase in estimated Education Protection Act revenues.
- An increase of \$95.1 million in 2012-13 to reflect the restoration of apportionment funding previously deferred.
- A decrease of \$15 million in 2012-13 to reflect an increase in estimated student fee revenues due to the recent policy change by the Board of Governors of the California Community Colleges to increase the need threshold for Part C fee waiver eligibility from \$1 to \$1,104.
- A decrease of \$2.4 million in 2012-13 to reflect an increase in estimated oil and mineral revenues.
- *Quality Education Investment Act*—Of the previously discussed \$450 million in 2012-13 Quality Education Investment Act funding, \$48 million is associated with the Community Colleges.
- *Redevelopment Agency Revenue*—a decrease of \$30.8 million in 2011-12 from the Governor’s Budget of \$146.9 million to the May Revision of \$116.1 million to reflect revised estimated revenue from the elimination of redevelopment agencies. A corresponding \$116.1 million reduction to apportionment funding is reflected as General Fund savings for 2011-12. An increase of \$190.6 million in 2012-13 for a total of \$341.2 million. The increase largely reflects the recovery of one-time liquid assets totaling \$200.9 million and a \$10.3 million decrease in estimated ongoing revenues from \$150.6 million to \$140.3 million. An additional \$16 million in property tax funds will be retained by community college districts.

CALIFORNIA STUDENT AID COMMISSION

CSAC administers state financial aid to students attending all institutions of public and private postsecondary education through a variety of programs including the Cal Grant High School and Community College Transfer Entitlement programs, the Competitive Cal Grant program, and the Assumption Program of Loans for Education. Over 91,000 students received new Cal Grant awards, and over 144,000 students received renewal awards in 2010-11.

Prior to 2001, the program offered a capped number of awards to students and award amounts were specified in the Budget. Under that construct, the program supported 130,000 students at a cost of \$462 million in 2000-01. The program is now an

entitlement and has been one of the fastest growing programs in the state. Costs have increased due to an increased number of students participating in the program and UC and CSU tuition increases. The number of students in the program increased to an estimated 259,000 and costs increased to \$1.6 billion.

The May Revision builds upon the Governor's Budget proposals to focus financial aid on students attending the state's public higher education institutions and other institutions that are able to minimize student debt loads and produce successful graduates, students demonstrating a high likelihood of completing their degrees or programs, and students demonstrating the greatest financial need.

Proposals to Balance the Budget:

- *Align Cal Grant Program Award Methodology with Federal Pell Grant Methodology*—The Administration proposes trailer bill language to align the methodology for determining award levels to the federal Pell Grant award methodology. Currently, a Cal Grant applicant who meets academic, income, and asset requirements is eligible for an award equal to the full tuition cost at UC and CSU or an award amount specified in the annual Budget Act for private, for-profit and non-profit institutions. This results in an "all-or-nothing" award determination. In contrast, the Pell Grant award is tailored to the financial need of each student and factors in family income, the cost of attendance, and the expected family contribution. Under this proposal, the neediest students would continue to receive maximum award amounts (approximately 63 percent of Cal Grant recipients) while students with lower costs of attendance and/or higher family incomes will receive a reduced Cal Grant award that would mirror the Pell Grant award. This proposal will not affect existing Cal Grant recipients and will only apply to students who apply for grants after July 2012.
- *Restrict Cal Grant Program Participation to Institutions that Meet a New Graduation Rate Standard*—A decrease of \$38.4 million in 2012-13 to reflect: (1) a reduction in the maximum student loan cohort default rate allowable by a participating Cal Grant institution from 30 percent to 15 percent; and (2) a 30-percent minimum graduation rate standard for all participating Cal Grant institutions. The 15-percent loan default rate will replace the Governor's Budget proposal to reduce the loan default rate from 30 percent to 24.6 percent. Cohort default rates measure the percentage of an institution's borrowers who, upon entering student loan repayment, default within three years. Any institution that exceeds the loan default rate or drops below the graduation rate will be prohibited from participating in the Cal Grant program for one academic year. These requirements will not apply to any institution with 40 percent

or fewer of their students borrowing federal student loans to attend college, such as community colleges.

- *Offset Cal Grant Costs with Federal Temporary Assistance for Needy Families (TANF) Reimbursements*—A decrease of \$67.4 million in 2012-13 to reflect TANF funds available through an interagency agreement with the Department of Social Services pursuant to CalWORKs adjustments and reductions. Combined with the TANF funds included in the Governor’s Budget, the May Revision offsets \$803.8 million in Cal Grant General Fund costs.
- *Offset Cal Grant Costs with Student Loan Operating Fund (SLOF)*—An increase of \$30 million SLOF and a like amount decrease of General Fund in 2012-13 to reflect the availability of SLOF funds to offset Cal Grant program General Fund costs. Combined with the SLOF funds included in the Governor’s Budget, the May Revision offsets \$60 million in Cal Grant General Fund costs.

Other Significant Adjustments:

- *Movement of Students Between Cal Grant B and Cal Grant A Awards*—An increase of \$27.7 million General Fund in 2011-12 and an increase of \$26.5 million General Fund in 2012-13 to allow students within the Cal Grant B program to switch to the Cal Grant A program when renewing their award. Some students initially qualify for both awards. Students that elect to receive a Cal Grant B instead of a Cal Grant A are held to a significantly lower income ceiling for the entirety of their program eligibility. Due to new income verification requirements adopted last year, a portion of renewal Cal Grant B students have become ineligible for the program because of the type of award they chose. As a result, the Administration proposes to allow only those Cal Grant B students who were originally eligible for both a Cal Grant A and a Cal Grant B award and are later deemed ineligible to renew their Cal Grant B due to a change of family income to renew as Cal Grant A students.
- *New Cal Grant Costs Due to California State University Tuition Increases*—An increase of \$31.2 million General Fund in 2012-13 as a result of a 9.1-percent tuition increase at CSU for the 2012-13 academic year. Because state law provides Cal Grant awards to CSU students that cover the cost of tuition, this tuition increase will result in an increase in Cal Grant program costs.

This page intentionally blank to facilitate double-sided printing.